

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

EASTPOINTE HOUSING COMMISSION

Financial Statements

June 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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EASTPOINTE HOUSING COMMISSION
15701 E. Nine Mile
Eastpointe, MI 48021

Jody L. Wenz, Executive Director

As management of the Eastpointe Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Eastpointe Housing Commission's financial activities for the FYE 6/30/04. This discussion and analysis letter of the Eastpointe Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place during the FY.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/04:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>	<u>Change</u>
Public Housing Operating Subsidy	188,841	186,612	2,229
Capital Fund Program Grants	128,252	248,180	(119,928)
Sec. 8 Housing Choice Voucher Subsidy	817,462	778,974	38,488

The following represents changes in the Asset section of the Balance Sheet:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>	<u>Change</u>
Cash	237,528	275,171	(37,643)
Investments	356,995	457,446	(100,451)
Fixed Assets, Net of Depreciation	4,137,961	4,192,545	(54,584)
Total Net Assets	4,986,358	5,185,401	(199,043)

Cash and investments decreased, in part, due to the funding of 2 capital projects out of Operating Revenues:

1. Replaced outdated smoke detectors in all 164 units at a cost of \$28,941.
2. Complete Upgrade to building envelope via use of an exterior synthetic plaster system at a cost of \$44,770.

Cash and investments also decreased due to the Operating Loss sustained by the Public Housing program in its day-to-day operations of approximately \$49,000 (see attached statement).

Fixed Assets increased by \$200,368; of this, \$73,711 is detailed above; the balance of \$126,657 was several different capital projects funded through the Capital Fund Programs. These projects included common area and elevator upgrades and also work projects within the dwelling units. The increase in Fixed Assets was more than offset by depreciation charges of \$254,951, resulting in the net decrease stated in the preceding table.

The decrease in Total Net Assets mirrors the decreases in the other categories as stated above.

Entity-Wide Operational Highlights:

The Eastpointe Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> <u>6/30/04</u>	<u>FYE</u> <u>6/30/03</u>
Low Rent Public Housing	164	164
Sec. 8 Housing Choice Voucher	131	131

During FYE 6/30/04, Eastpointe Housing Commission maintained a lease-up rate of 99.4% in its Public Housing Program and a lease-up rate exceeding 100% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

General Fund Budgetary Highlights:

A Low Rent Public Housing Operating budget for fye 6/30/04 was presented to and approved by the board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

The following represents our Low Rent Public Housing approved budget and actual results:

EASTPOINTE HOUSING COMMISSION
OPERATING INCOME STATEMENT
FYE 6/30/04

Approved Budget	<u>INCOME</u>	Actual
402,000	Dwelling Rental	398,350.00
4,000	Excess Utilities	3,754.00
0	Non-Dwelling Rent	0.00
6,000	Interest Earned	11,759.60
7,200	Other Income	8,185.19
	Approved Operating	
188,841	Subsidy	188,841.00
0	CFP 1406 Operations	0.00
608,041	Total Income	610,889.79
	<u>EXPENSES</u>	
79,900	Administrative Salaries	79,815.52
	Consultants	2,181.00
	Compensated Absences	(28,994.68)
1,000	Legal	
6,000	Travel	3,642.94
10,985	Accounting Fees	10,985.00
2,600	Audit Fees	2,500.00
<u>32,750</u>	Other Admin. Expenses	<u>26,234.84</u>
133,235	Total Admin. Expense	96,364.62
0	Tenant Services Salaries	0.00
<u>14,025</u>	Tenant Services - Other	<u>5,456.00</u>
14,025	Total Tenant Serv. Exp.	5,456.00
24,000	Water	25,078.26
77,000	Electricity	73,562.67
<u>45,000</u>	Gas	<u>66,476.04</u>
146,000	Total Utilities Expense	165,116.97
123,030	Maintenance Wages	116,129.07
25,000	Materials	20,190.73
<u>69,500</u>	Contract Costs	<u>86,353.32</u>
217,530	Total Maint. Expense	222,673.12
43,500	Insurance	36,417.04
0	PILOT	0.00
	Terminal Leave Payments	0.00
92,095	Employee Benefits	98,970.11
0	Collection Losses	488.96
135,595	Total General Expenses	135,876.11
	Extraordinary	
3,500	Maintenance	3,488.00

0	Casualty Losses	0.00
<u>34,000</u>	Depreciation Expense *	<u>31,304.70</u>
683,885	Total Operating Expenses	660,279.52
		(49,389.73
(75,844)	Operating Income/Loss)

* - Depreciation expense as stated above represents only depreciation charges attributable to cumulative capital expenditures made out of the Operating Budget.

Revenues:

Eastpointe Housing Commission's primary revenue sources are subsidies and grants received by HUD. Revenue received from HUD in FYE 6/30/04 for the Public Housing and for Sec. 8 remained relatively flat from fye 6/30/03 to 6/30/04. For FYE 6/30/04, revenue generated by the Commission accounted for \$424,533 (or 27% of total revenue), while HUD contributions accounted for \$1,134,555 (or 73% of total revenue). Any increase in Commission-generated revenue is constrained by various HUD rules and regulations, most notably those which pertain to the setting of tenant rental rates. Therefore, the Commission is inherently dependent upon HUD for the bulk of revenue.

Expenses:

Although most Operating costs continue to increase, we were able to actually decrease our Total Operating Expenses from fye 6/30/03 to fye 6/30/04. Total LRPB Operating Expenses for FYE 6/30/03 were \$665,191 while for FYE 6/30/04 the total was \$625,488. It is important to note, however, that we have sustained a 61% increase in property & liability insurance since 9/11/01. Increases in Health Insurance premiums have skyrocketed in the past year. We have also experienced large increases in the cost of Natural Gas.

Subsequent to the end FYE 6/30/04, the Housing Commission separated from the City and is in the process of implementing new employee benefit packages that we hope will not significantly alter the employee's benefits while at the same time containing our costs for those programs. We have also made some personnel changes that should result in cost-savings. With these efforts in place, the Eastpointe Housing Commission expects to be able to provide safe, sanitary and decent housing for the low income elderly and families of their community for years to come.

Sincerely,

Jody L. Wenz
Executive Director

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Eastpointe Housing Commission
250 Champion Street
Eastpointe, Michigan 49017

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Eastpointe Housing Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Eastpointe Housing Commission as of June 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

December 17, 2004

EASTPOINTE HOUSING COMMISSION
Combined Statement of Net Assets
June 30, 2004

ASSETS

C-3024

CURRENT ASSETS

Cash	\$	237,528
Accounts Receivable		174
Accounts Receivable- Other		81,327
Investments		356,995
Prepaid Expenses		23,191
Inter Program due from		<u>149,182</u>

Total Current Assets	\$	848,397
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NON CURRENT ASSETS

Land	\$	239,525
Buildings		3,914,303
Furniture, Equipment- Dwellings		83,616
Furniture, Equipment- Administrative		180,593
Construction in Progress		2,458,777
Accumulated Depreciation		<u>(2,738,853)</u>

Total Non Current Assets		<u>4,137,961</u>
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<u>TOTAL ASSETS</u>	\$	<u>4,986,358</u>
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EASTPOINTE HOUSING COMMISSION
Combined Statements of Net Assets
June 30, 2004

LIABILITIES

C-3024

CURRENT LIABILITIES

Accounts Payable	\$	85,540	
Accrued Liabilities		129,968	
Tenants Security Deposit		37,090	
Deferred Revenue		63	
Inter-Program due to		<u>149,182</u>	
<u>Total Current Liabilities</u>	\$		401,843

NONCURRENT LIABILITIES

Compensated Absences-noncurrent		<u>6,847</u>	
<u>Total Liabilities</u>	\$		408,690

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	4,137,961	
Unrestricted Net Assets		<u>439,707</u>	
<u>Total Net Assets</u>			<u>4,577,668</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>4,986,358</u>
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The Accompanying Notes are an Integral part of the Financial Statements

EASTPOINTE HOUSING COMMISSION
Combined Statement of Income and Expenses
For the year ended June 30, 2004

REVENUE

Tenant Rental Revenue	\$ 398,350	
Tenant Revenue- Other	3,754	
HUD Grants	1,134,555	
Interest Income	12,049	
Other Income	<u>10,380</u>	
<u>Total Revenue</u>		\$ 1,559,088

EXPENSES

Administrative	\$ 228,231	
Tenant Services	5,456	
Utility Expenses	165,117	
Ordinary Maintenance	281,331	
General Expenses	<u>36,906</u>	
<u>Total Expenses</u>		<u>717,041</u>
<u>Excess (Deficiency) of Revenues over Expenses</u>		\$ 842,047

OTHER SOURCES & (USES)

Extraordinary Maintenance	\$ (3,488)	
Housing Assistance Payments	(742,121)	
Depreciation Expenses	<u>(254,951)</u>	
<u>Total Other Sources (Uses)</u>		<u>(1,000,560)</u>
<u>Change in Net Assets</u>		\$ <u>(158,513)</u>
Total Net Assets- Beginning		4,739,391
Prior Period Adjustment: Correction of Prior Year Funding Per HUD		<u>(3,210)</u>
Adjusted Beginning Balance		\$ <u>4,736,181</u>
Total Net Assets- Ending		\$ <u>4,577,668</u>

The Accompanying Notes are an Integral part of the Financial Statements

EASTPOINTE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 401,930
Payments to Suppliers	(1,142,649)
Payments to Employees	(253,540)
HUD Grants	1,134,555
Other Receipts (Payments)	<u>22,429</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>162,725</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(200,368)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (37,643)
Balance- Beginning of Year	<u>275,171</u>
Balance- End of Year	\$ <u>237,528</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (158,513)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	254,951
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(10,064)
Investments	100,451
Prepaid Expenses	1,930
Interfund Due From	18,539
Changes in Liabilities Increase (Decrease):	
Accounts Payable	68,590
Accrued Liabilities	9,424
Compensated Absences	(28,994)
Security Deposits	2,451
Deferred Revenue	(78,317)
Other Liabilities	816
Interfund Due To	<u>(18,539)</u>
Net Cash Provided by Operating Activities	\$ <u>162,725</u>

The Accompanying Notes are an Integral part of the Financial Statements

EASTPOINTE HOUSING COMMISSION
Notes to Financial Statements
June 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Eastpointe Housing Commission, Eastpointe, Michigan, (Commission) was created by ordinance of the city of Eastpointe. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 44-1-2	Low rent program	164 units
MI 44VO	Section 8 Vouchers	131 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

Notes to Financial Statements- continued

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Notes to Financial Statements- continued

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 203,240
Treasury Bills	34,138
Petty Cash	<u>150</u>
Financial Statement Total	\$ <u>237,528</u>

Investments:

Government Backed Securities	\$ <u>356,995</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 203,240	\$	\$	\$ 203,240	\$ 203,240
Petty Cash	150			150	150
Treasury Bill's	<u>34,138</u>			<u>34,138</u>	<u>34,138</u>
Total Cash	<u>\$ 237,528</u>	<u>\$</u>	<u>\$</u>	<u>\$ 237,528</u>	<u>\$ 237,528</u>
Investments:					
Securities	\$ 356,995	\$	\$	\$ 356,995	\$ 356,995

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable-Other

Accounts Receivable Other consist of the following:

Account Receivable HUD	\$ 75,352
Accrued Interest Receivable	<u>5,975</u>
	\$ <u>81,327</u>

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 239,525	\$	\$	\$ 239,525
Buildings	3,914,303			3,914,303
Furniture & Equipment-Dwellings	83,616			83,616
Furniture & Equipment-Admin	176,016	4,577		180,593
Leasehold Improvements	<u>2,262,986</u>	<u>195,791</u>		<u>2,458,777</u>
	\$ 6,676,446	\$ 200,368	\$	\$ 6,876,814
Less Accumulated Depreciation	<u>2,483,902</u>	<u>254,951</u>		<u>2,738,853</u>
	\$ <u>4,192,544</u>	\$ <u>(54,583)</u>	\$	\$ <u>4,137,961</u>

Note 5: Retirement.

The Commission provides a pension plan for eligible full time employees. The Commission contributes a percentage of each eligible employees wage to the plan, and accounts for the expense as incurred. Plan assets and actuarially statistics are contained in a separate audit provided by the plan administrator.

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 92,059
Accounts Payable- HUD	24,486
Accrued Utilities	<u>13,423</u>
Financial Statement Total	\$ <u>129,968</u>

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 10: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 10,487,539
General Liability	3,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Commission

	Combining Balance Sheet	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	130,499	107,029	-	237,528
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	130,499	107,029	-	237,528
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects		1,004		1,004
122	Accounts receivable - HUD other projects	-	-	74,348	74,348
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	174			174
126	Allowance for doubtful accounts - dwelling rents				-
126	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	5,975			5,975
120	Total receivables, net of allowances for doubtful accounts	6,149	1,004	74,348	81,501
	Current investments				-
131	Investments - unrestricted	356,995			356,995
132	Investments - restricted				-
142	Prepaid expenses and other assets	23,191			23,191
143	Inventories				-
143	Allowance for obsolete inventories				-
144	Interprogram - due from	149,182	-	-	149,182
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS				

		666,016	108,033	74,348	848,397
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	239,525			239,525
162	Buildings	3,914,303			3,914,303
163	Furniture, equipment & machinery - dwellings	83,616	-	-	83,616
164	Furniture, equipment & machinery - administration	176,814	-	3,779	180,593
165	Leasehold improvements	2,269,775		189,002	2,458,777
166	Accumulated depreciation	(2,734,055)	-	(4,798)	(2,738,853)
160	Total fixed assets, net of accumulated depreciation	3,949,978	-	187,983	4,137,961
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	3,949,978	-	187,983	4,137,961
190	TOTAL ASSETS	4,615,994	108,033	262,331	4,986,358
	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	84,880	660		85,540
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	92,059	-		92,059
322	Accrued compensated absences	-			-
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		24,486		24,486
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	37,090			37,090
342	Deferred revenues	63	-		63
343	Current portion of Long-Term debt - capital projects				-

344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	13,423			13,423
347	Inter-program - due to	-	74,834	74,348	149,182
310	TOTAL CURRENT LIABILITIES	227,515	99,980	74,348	401,843
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current-capital projects				-
352	Long-term debt, net of current-operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	6,847			6,847
350	TOTAL NONCURRENT LIABILITIES	6,847	-	-	6,847
300	TOTAL LIABILITIES	234,362	99,980	74,348	408,690
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total contributed capital	-	-	-	-
508	Invested in Capital Assets, Net of Related Debt	3,949,978	-	187,983	4,137,961
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512	Unrestricted Net Assets	431,654	8,053		439,707
513	TOTAL EQUITY	4,381,632	8,053	187,983	4,577,668
600	TOTAL LIABILITIES AND EQUITY	4,615,994	108,033	262,331	4,986,358

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Eastpointe Housing
Commission

30-Jun-
04

MI044

	Combining Income Statement	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	REVENUE:	-	-	-	
703	Net tenant rental revenue	398,350			398,350
704	Tenant revenue - other	3,754			3,754
705	Total tenant revenue	402,104	-	-	402,104
706	HUD PHA grants	188,841	817,462	128,252	1,134,555
708	Other government grants				-
711	Investment income - unrestricted	11,759	290		12,049
712	Mortgage interest income		-		-
714	Fraud recovery		1,782		1,782
715	Other revenue	8,185	413		8,598
716	Gain or loss on the sale of fixed assets				-
720	Investment income - restricted				-
	- - - -				
700	TOTAL REVENUE	610,889	819,947	128,252	1,559,088
	EXPENSES:				
	Administrative				
911	Administrative salaries	79,816	57,595		137,411
912	Auditing fees	2,500			2,500
913	Outside management fees				-
914	Compensated absences	(28,995)			(28,995)
915	Employee benefit contributions- administrative	40,313	14,000		54,313
916	Other operating- administrative	43,044	17,565	2,393	63,002
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			

					-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	5,456			5,456
	Utilities				
931	Water	25,078			25,078
932	Electricity	73,563			73,563
933	Gas	66,476			66,476
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	116,129			116,129
942	Ordinary maintenance and operations - materials & other	20,191		-	20,191
943	Ordinary maintenance and operations - contract costs	86,354		-	86,354
945	Employee benefit contributions- ordinary maintenance	58,657			58,657
	Protective services				
951	Protective services - labor				-
952	Protective services- other contract costs				-
953	Protective services - other				-
955	Employee benefit contributions- protective services				-
	General expenses				
961	Insurance premiums	36,417			36,417
962	Other General Expenses	-			
963	Payments in lieu of taxes	-			-
964	Bad debt - tenant rents	489			489
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	-			-
969	TOTAL OPERATING EXPENSES	625,488	89,160	2,393	717,041
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(14,599)	730,787	125,859	842,047

971	Extraordinary maintenance	3,488			3,488
972	Casualty losses - non-capitalized	-			-
973	Housing assistance payments		742,121	-	742,121
974	Depreciation expense	250,153	-	4,798	254,951
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	TOTAL EXPENSES	879,129	831,281	7,191	1,717,601
	OTHER FINANCING SOURCES (USES)				
1001	Operating transfers in	-			-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(268,240)	(11,334)	121,061	(158,513)

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EASTPOINTE HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3024 Operating Subsidies	\$ <u>188,841</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3024 Capital Grants	\$ <u>128,252</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3236V Section 8 Housing Choice Vouchers	\$ <u>817,462</u>
	\$ <u>1,134,555</u>

*Connotes Major Program Category

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EASTPOINTE HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2004

The prior audit of the Eastpointe Housing Commission for the period ended June 30, 2003, contained two audit findings; the action taken by the Commission is as follows:

- 1) Davis Bacon Discrepancies- The Commission obtained certified payrolls and conducted employee interviews; no evidence of misclassified job classifications.
- 2) Tenant accounting discrepancies, Low Rent Program- The files tested did not reveal any compliance errors.

EASTPOINTE HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2004

Compliance

I have audited the compliance of Eastpointe Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Eastpointe Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Eastpointe Housing Commission's management. My responsibility is to express an opinion on Eastpointe Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Eastpointe Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Eastpointe Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Credit Card Policy	04-2	Activities allowed or unallowed
Withholding on Longevity Pay	04-3	Activities allowed or unallowed

Section 8 Housing Choice Vouchers:

Tenant Accounting Discrepancies 04-1 Eligibility

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In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of Eastpointe Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Eastpointe Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 28, 2005

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EASTPOINTE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2004

I have audited the financial statements of Eastpointe Housing Commission, Eastpointe, Michigan, as of and for the year ended June 30, 2004, and have issued my report thereon dated January 28, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Eastpointe Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Eastpointe Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

January 28, 2005

EASTPOINTE HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2004

Programs :

Opinions:

Unqualified

Reportable condition(s) noted	<u> </u> Yes	<u>X</u>	No
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Report on compliance for Federal programs-

Qualified

Reportable condition(s) noted	<u> X </u> Yes	<u> </u> No
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Non Compliance material to financial statements noted	Yes	X	No
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Thresholds :

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	04-2; 04-3
Housing Assistance Program	Yes	None	04-1
Capital Projects Funds	Yes	None	N/A

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EASTPOINTE HOUSING COMMISSION
Findings & Questioned Cost
June 30, 2004

The following findings, of the Eastpointe Housing Commission, for the year ended June 30, 2004, were discussed with the Executive Director, Ms. Jody Wenz, in an exit interview conducted on January 28, 2005:

Finding 04-1

Tenant income discrepancies; Section 8 Housing Choice program.

A review of eight tenant files revealed the following discrepancies:

Three files did not contain third party verification of income.

Recommendation

The Commission does verify income and uses the results during the re-examination process; however, the files mentioned above did not have proper third party documentation or acceptable alternative verification processes.

I recommend the Commission verify all income with third parties as required by HUD or follow acceptable alternative procedures when such verifications are not possible.

Reply

The Eastpointe Housing Commission attempts to verify ALL income sources by third party verification for every one of our clients. Due to circumstances beyond our control, there are some government agencies who will not collaborate in this effort. We have written letters to these agencies, explaining our situation and trying to establish a "contact person" from within who would be willing to cooperate. In some instances, as the recertification deadline draws near, we are forced to resort to oral verification from the client. This oral verification is documented in the file. In the past, this oral self-declaration has not been notarized.

As a result of this audit finding, we have developed the following FAMILY SELF-DECLARATION FORM, which will be used in every instance when we are unable to obtain third party income verification. In order for this form to be acceptable for housing commission purposes, this form must be notarized. A copy of this form is submitted below.

FAMILY SELF-CERTIFICATION

The Eastpointe Housing Commission has attempted to contact

_____ at least ____ times by U.S. mail in order to
verify this
(agency)

income source.

(Administrator initials & date)

I, _____, confirm that I am supposed to
receive \$_____/ mo./wk. from _____
for the purpose of _____.

However, I have not received these payments regularly or at all. Let
this certification testify that I have received \$_____
from _____ in the past twelve (12) months.

In addition, I have attempted to collect this money through the
following

efforts: _____

Signature

date

Address

Telephone #

FORM RETURN DEADLINE: _____

In order for this certification to be valid, it must be signed and stamped by
a notary. Failure to have this form completed by the deadline listed above
is grounds for termination from the Section 8 program.

Finding 4-2

Credit Card Policy.

The Commission has a credit card, however, does not have a written credit card policy.

Recommendation

The State of Michigan requires all Governmental Units that have a credit card must have a credit card policy; Public Act 266 of 1995 (MCL 129.95).

I recommend the Commission adopt a credit policy which has as a minimum restrictions on use and authorized personnel.

Reply

The Commission was unaware of this requirement, however, we have adopted the following policy at the February 16, 2005 board meeting.

EASTPOINTE HOUSING COMMISSION CREDIT CARD POLICY

The following measures will be taken to ensure proper use and security of any credit cards issued in the name of the Eastpointe Housing Commission:

The Executive Director, President, or Vice-President of the Housing Commission is authorized to apply for a credit card charge account under the Eastpointe Housing Commission's name.

The credit card(s) will be for Executive Director or Housing Commissioner Use only.

Any credit card issued in the name of the Housing Commission or paid for with Housing Commission funds is to be used for Housing Commission purchases only. Any person discovered making personal purchases with Commission credit card(s) will be terminated.

The credit card(s) are ultimately controlled by the Executive Director. The Executive Director or President/Vice-President of the Housing Commission board may authorize another staff member to use the credit card with prior approval only.

Maintenance credit cards (Lowes, Home Depot, etc.) in the name of the Housing Commission, may be carried by maintenance personnel, but are to be used for Housing Commission

purchases only.

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All H/C credit cards receipts are to be immediately turned in to the Executive Director.

When not in use, the credit card(s) will be kept locked in the Executive Director's office.

In order not to circumvent the Housing Commission's Procurement policy, no single purchase of \$5,000.00 or over can be made with the credit card without prior Housing Commission Board approval.

Adopted on: February 16, 2005

Finding 4-3

Longevity pay not included on employee's payroll.

The Commission has an approved plan to pay compensation for longevity to the employees, however, has not included these payments in the employee's payroll.

The Internal Revenue Service, (IRS) requires all payments to employees be included in their payroll subject to withholding and payroll taxes.

Recommendation

The IRS has specific rules concerning payments to employees; all remunerations are considered compensation and subject to withholding and payroll taxes.

I recommend in the future, all payments be reported through the employees payroll.

Reply

We were unaware of this IRS rule. Therefore, from this day forward, any employee compensation pay, longevity, opt-outs, etc. will be run through the payroll company in order to be taxed.